

will also be available for inspection and copying at the principal office of the Amex. All submissions should refer to File No. SR-Amex-94-60 and should be submitted by February 16, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁸

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-35247; International Series Release No. 774 File No. SR-CBOE-95-01]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Board Options Exchange, Inc. Relating to the Listing of Warrants on the Deutscher Aktien Index ("DAX Index")

January 19, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on January 5, 1995, the Chicago Board Options Exchange, Inc. ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The CBOE proposes to list and trade warrants based on the Deutscher Aktien Index ("DAX Index" or "Index"), a broad-based index.³ The Exchange represents that the listing and trading of warrants on the Exchange is permitted by CBOE Rule 31.5(E). The text of the proposed rule change is available at the Office of the Secretary, CBOE, and at the Commission.

II. Self-Regulatory Organization's Statement of the Purpose of and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements

concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The CBOE has prepared summaries, set forth in Sections (A), (B), and (C) below, of the most significant aspects of such statements.

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

The Exchange represents that it is permitted to list and trade index warrants under CBOE Rule 31.5(E). The Exchange is now proposing to list and trade index warrants based upon the DAX Index. The Exchange further represents that the listing and trading of Index warrants will comply in all respects with CBOE Rule 31.5(E), as discussed below.

Index Design⁴

The DAX Index is a capitalization-weighted index of 30 German blue-chip equity securities listed on the Frankfurt Stock Exchange ("FSE").⁵ The Exchange represents that warrants on the DAX Index will provide investors with a low-cost means of participating in the German economy and hedging against the risk of investing in that economy.

The 30 stocks comprising the DAX Index were selected by the FSE for their high market capitalization and high degree of liquidity. The DAX Index stocks are drawn from a broad base of industries and are representative of the industrial composition of the broader German equity market. The CBOE represents that the stocks contained in the Index account for 70% of the trading volume on the FSE.

The DAX Index is weighted by the market capitalization of the component stocks. The capitalization of a particular stock in the Index is calculated by

⁴ The Commission notes that the Exchange incorporates by reference to its proposal to list Index options, most of the information and representations contained in this section and in the following sections on Index calculation and maintenance. *Id.* For convenience, the Commission has adapted the text of that filing for inclusion herein.

⁵ The components of the Index are as follows: Allianz AG Holdings, BASF AG, Bayer AG, Bayer Hypo/Wech, BMW, Bayer Vereinsbank AG, Commerzbank AG, Continental AG, Daimler-Benz AG; Deutsche Babcock AG; Deutsche Bank AG; Degussa AG; Dresdner Bank AB; Henkel KGAA-Pfd; Hoechst AG; Karstadt AG; Kaufhof Holdings AG; Lufthansa AG; Linde AG; Man AG; Metallgesellschaft; Mannesmann AG; Preussag AG; RWE AG; Schering AG; Siemens AG; Thyssen AG; Veba AG; Viag AG; and Volkswagen AG.

multiplying the listed capital⁶ by the price of the stock and a multiple determined by the FSE.

As of August 31, 1994, the CBOE represents that the 30 stocks contained in the Index range in market capitalization from DM 1.8 billion (US\$1.14 billion)⁷ to DM 50.1 billion (US\$31.7 billion) with the median capitalization of the firms in the Index of DM 9.9 billion (US\$6.3 billion). Also as of that date, the largest 13 stocks in the Index accounted for approximately 75% of the total weight of the Index with no single security accounting for more than 10.87% or less than 0.37% of the total weight of the Index. Average daily trading volume in the components of the Index for the period from March 1, 1994, through August 31, 1994, ranged from a low of 50,981 shares to a high of 820,738 shares, with an average daily trading volume for all components during that period of approximately 295,000 shares. The Index is composed of ten broad industry groups, including, among others, chemicals, automobile, and insurance companies which, the CBOE represents, reflect the industry composition of the German equity market.

Calculation

The DAX Index reflects changes in the capitalization of the component stocks relative to the base value of 1,000 on December 30, 1987. The base value was reached by multiplying the price of each stock by the number of listed shares of that stock, obtaining the sum for all components, and then dividing by a divisor determined to give the Index an initial value of 1,000. The Index had a closing value of 2,212.85 on August 31, 1994.

The value of the DAX Index is calculated every minute by the FSE from 9:30 a.m. to 1:30 p.m., Frankfurt time (3:30 a.m. to 7:30 a.m. Eastern time), based on last sale prices of the component stocks. The value of the Index is not disseminated by the FSE until opening prices are available for at least 15 components of the Index representing at least 70 percent of the capitalization of the Index. Thereafter, with respect to any stock that has not yet opened for trading, the Index value is calculated using the previous day's closing price for those components.

⁶ Listed capital is determined based on the issuer's preferred and common shares registered for trading on the FSE. The CBOE notes that domestic indexes, such as the S&P 500 Index, are calculated based on the shares of common stock only.

⁷ Based on the exchange rate of DM 1.5815/US\$1 prevailing on August 31, 1994.

⁸ 17 CFR 200.30-3(a)(12) (1994).

¹ 15 U.S.C. 78s(b)(1) (1988).

² 17 CFR 240.19b-4 (1991).

³ The Exchange previously submitted a rule filing to permit the listing and trading of index options on a reduced-value DAX Index. See Securities Exchange Act Release No. 35130 (December 20, 1994), 59 FR 66985 (December 28, 1994) (notice of File No. SR-CBOE-94-47).

Maintenance

The Index is maintained by the FSE. The value of the Index is calculated by the FSE and disseminated over Reuters News Service, among others.

In order to maintain continuity of the value of the Index, the FSE adjusts the Index to reflect certain events relating to the component stocks. For example, the FSE adjusts the Index value to reflect cash dividends paid on the component securities.⁸ An adjustment is also applied by the FSE whenever a company issues new shares for which the shareholders have preemptive rights, or when other intra-year events, such as mergers and spinoffs, occur.

The number of listed shares of each stock used in the calculation of the value of the Index is updated by the FSE annually in September. At that time, the adjustment factors mentioned above, which reflect the dividend payments and/or intra-year adjustments, are rescaled to one, with an additional adjustment made to maintain continuity in the value of the Index.⁹

In addition, the composition of the Index is reviewed periodically by the FSE. It is the FSE's policy not to alter the composition of the DAX Index unless a stock fails to meet certain criteria, e.g., market capitalization and trading volume. Replacements are usually made from a list of substitute stocks. If it is not possible to substitute a stock from the same industry group, a stock from another industry may be substituted.

Index Warrant Trading

The proposed warrants will be direct obligations of their issuer subject to cash-settlement in U.S. dollars, and either exercisable throughout their life (i.e., American-style) or exercisable only immediately prior to their expiration

date (i.e., European-style). Upon exercise, the holder of a warrant structured as a "put" will receive payment in U.S. dollars to the extent that the DAX Index has declined below a cash settlement value specified at the time of issuance. Conversely, upon exercise, holders of an Index warrant structured as a "call" will receive payment in U.S. dollars to the extent that the DAX Index has increased above a cash settlement value specified at the time of issuance. Index warrants that are "out-of-the-money" at the time of expiration will expire worthless.

Warrant Listing Standards and Customer Safeguards

CBOE Rule 31.5(E) sets forth the guidelines applicable to listing index warrants based on established foreign and domestic stock indexes. The warrant issues based on the DAX Index will conform to the listing guidelines under Rule 31.5(E) which provide that: (1) The issuer shall have assets in excess of \$100,000,000 and otherwise substantially exceed the size and earnings requirements in Rule 31.5(A); (2) the term of the warrants shall be for a period ranging from one to five years from date of issuance; and (3) the minimum public distribution of such issues shall be one million warrants, together with a minimum of 400 public holders and have an aggregate market value of at least \$4 million.

Because index warrants are derivative in nature and closely resemble index options, the CBOE will also require that DAX Index warrants be sold only to customers whose accounts have been approved for options trading pursuant to Exchange Rule 9.7. The suitability standards of Exchange Rule 9.9 apply to recommendations in Index warrants. Further, the Exchange will require that customer positions in DAX Index warrants be subject to the margin requirements applicable to options.¹⁰

In addition, Exchange Rule 30.50, Interpretation .04 requires that the standards of Rule 9.10(a) regarding discretionary orders be applied to Index warrants. This rule requires a branch office manager or registered options principal to approve and initial a discretionary order in Index warrants on the day entered. Prior to the commencement of trading of Index warrants, the Exchange will distribute a circular to its membership calling attention to certain compliance responsibilities when handling transactions in Index warrants. The Exchange will submit a draft of the circular to the Commission staff for

approval prior to distribution to members.

On September 28, 1994, the Exchange submitted for Commission approval, proposed rule changes governing customer protection and margin requirements for stock index warrants, currency index warrants, and currency warrants, and position limits for stock index warrants.¹¹ The Exchange represents that DAX Index warrants issued subsequent to approval of those proposals will be subject to the new rules.

Surveillance

The Exchange expects to apply its existing index warrant surveillance procedures to DAX Index warrants. The Exchange has a market surveillance agreement with the FSE. The Exchange represents that this agreement will enable the Exchange to carry out its regulatory responsibilities with respect to the surveillance of trading in the stocks comprising the Index.

In addition, the German legislature recently adopted new laws that criminalize insider trading and provide for the creation, on or around January 1995, of an independent securities regulatory authority. The Exchange believes that these developments will facilitate Commission approval of warrant trading based on the DAX Index because they will enhance the surveillance of trading in the stocks comprising the Index.

The Exchange believes that the proposed rule change is consistent with Section 6 of the Act, in general, and furthers the objectives of Section 6(b)(5) of the Act,¹² in particular, in that it is designed to prevent fraudulent and manipulative acts and practices and to promote just and equitable principles of trade, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

(B) Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any inappropriate burden on competition.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

Written comments on the proposed rule change were neither solicited nor received.

⁸ The CBOE represents that the FSE makes this adjustment because German companies usually pay their dividends only once per year (generally in June or July). If not adjusted, the annual dividend payment would result in a significant drop in the value of the Index at the time when the dividends are paid. As a result, the CBOE represents that the FSE calculates the dividend adjustment such that share prices reflect full dividend reinvestment. As calculated by the FSE, adjustments are made by multiplying each stock's capitalization by an adjustment factor (related to the amount of the dividend) that is particular to each stock. The resulting "adjusted" capitalization for each of the 30 stocks is summed and divided by the base date capitalization.

⁹ The FSE also multiplies the ratio of capitalization (current capitalization divided by base date capitalization) by the "chain index factor." The FSE employs the "chain index factor" to reflect all previous dividend and capitalization adjustments made during the year. In this manner, continuity in the value of the Index is maintained despite changes in the shares and rescaling of the individual adjustment factors back to one.

¹⁰ See CBOE Rule 12.3.

¹¹ See Securities Exchange Act Release No. 35178 (December 29, 1994), 60 FR 2409 (January 9, 1994) (notice of File No. SR-CBOE-94-34).

¹² 15 U.S.C. 78f(b)(5) (1988).

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

- (a) By order approve such proposed rule change, or
- (b) Institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interest persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. Copies of such filing will also be available for inspection and copying at the principal office of the CBOE. All submissions should refer to File No. SR-CBOE-95-01 and should be submitted by February 16, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹³

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[Release No. 34-35231; File No. SR-MSTC-94-13]

Self-Regulatory Organization; Midwest Securities Trust Company; Notice of Filing and Immediate Effectiveness of Proposed Rule Change That Merges the MSTC Bearer Bond System and the MSTC Registered Bond System

January 13, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on

October 11, 1994, the Midwest Securities Trust Company ("MSTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared mainly by MSTC, a self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

MSTC proposes to merge its bearer bond system into its registered bond system and to make certain related conforming changes.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, MSTC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places, specified in Item IV below. MSTC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

MSTC currently processes bearer municipal bonds in a different system from that which is used to process registered bonds and equities.² This proposal merges the bearer and registered securities processing systems with the registered securities processing system being the surviving system.

MSTC believes that merging the two systems provided several advantages. First, it reduces the number of separate reports that must be provided to participants. Second, it consolidates into one system all bearer and registered securities activity, input/inquiry functions, reports, and file transmissions. Third, it makes intraday transactions in bearer securities subject to the 1:30 p.m. cutoff that is currently in effect for registered securities

transactions rather than the existing 2:30 p.m. cutoff time.³ Finally, the merger permits bearer securities to be eligible for MSTC's pledge loan program.

MSTC believes that the proposed rule change is consistent with Section 17A of the Act⁴ in that it will facilitate the prompt and accurate clearance and settlement of securities transactions and will assure the safeguarding of securities and funds which are in MSTC's custody or control or for which MSTC is responsible.

(B) Self-Regulatory Organization's Statement on Burden on Competition

MSTC believes that the proposed rule change will not place any burden on competition.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

MSTC has neither solicited nor received any written comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act⁵ and Rule 19b-4(e)(4) thereunder⁶ because the proposal effects a change in an existing service of MSTC which does not adversely affect the safeguarding of securities or funds in the custody or control of MSTC or for which it is responsible and does not significantly affect the respective rights or obligations of MSTC or persons using the services.

At any time within sixty days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submission should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington D.C. 20549. Copies of the submissions, all subsequent

² The only bearer securities currently processed by MSTC are municipal bonds. The registered securities processing system, the "V3 System," is an enhanced electronic system. Telephone conversation between David T. Rusoff, Attorney, Foley & Lardner, and Thomas C. Etter, Jr., Senior Counsel, Division of Market Regulation, Commission (December 1, 1994).

³ All times in this proposal are Central Time.

⁴ 15 U.S.C. 78q-1 (1988).

⁵ 15 U.S.C. 78s(b)(3)(A)(iii) (1988).

⁶ 17 CFR 240.19b-4(e)(4) (1994).

¹³ 17 CFR 200.30-3(a)(12) (1994).

¹ 15 U.S.C. 78s(b)(1) (1994).